THE FINANCES.

WASHINGTON CORRESPONDENCE

OF

THE PHILADELPHIA PRESS,

GIVING

THE VIEWS OF THE HON. WM. D. KELLEY, M.C.,

October 30, 1873.

LETTER

OF

HON. WM. D. KELLEY, M.C.,

TO

THE PHILADELPHIA PRESS,

November 4, 1873.

PHILADELPHIA:
HENRY CAREY BAIRD,
INDUSTRIAL PUBLISHER,
406 WALNUT STREET.
1873.

THE FINANCES.

(From the Philadelphia "PRESS," October 31, 1873.)

WASHINGTON, October 30, 1873.

THE Hon. William D. Kelley, Representative in Congress from the Fourth district of Pennsylvania, has been here several days, in consultation with the President, the Secretary of the Treasury, General Spinner, and other prominent officials, on the financial situation. Since the beginning of the panic, Judge Kelley has given special attention to this subject, and he is as familiar with it in all its phases as he is with the other great question of revenue. He came here with certain fixed views with regard to resumption of specie payments, and the remedy for the monetary troubles that have overtaken the country. These are the result of careful inquiry and mature reflection. In addition to the government officials, Judge Kelley has compared opinions with leading financial men; and while he absolutely refuses to detail his interview with President Grant, he has no hesitation in saying, as already stated in these despatches, that he "finds the President's views much more accordant with his own than he had expected." Your correspondent called upon Judge Kelley to-day and requested him to state his views at length. Without interruption he proceeded to say:—

Wide-spread disaster sure to follow specie payments if attempted arbitrarily.

I find that a return to specie payments appears to be regarded as the paramount object of those I meet here. For my own part, I am indifferent to it unless it should come about naturally, and by the presence of gold coin enough to serve as the basis of a convertible currency establish the fact that the balance of trade is in our favor. When specie payments shall be thus inaugurated, they may be maintained, but should such payments be attempted arbitrarily they cannot be continued, and the attempt will result in panic and wide-spread disaster. Whatever differences of detail there may be, I hear but two general plans of resumption suggested. One is the contraction of the currency, and the other is the imparting of flexibility or elasticity, to that currency, involving at times an expansion thereof. In my judgment no measure of contraction, whether great or small, gradual or abrupt, would bring us to specie payments. On the contrary, a

vigorous contraction would produce almost universal individual and corporate bankruptcy; would check immigration and cause an immense emigration of recently arrived skilled workers, and would, in all probability, disable the government for a time from paying with regularity the $100,000,000 of gold interest annually due upon our bonds. We seem to the superficial observer to be nearer specie payments than we were seven years ago, but such is not the case, except that the ultimate day when specie payments will come about is seven years nearer than it was. What I mean to say is that we have made no progress by the application of appropriate means, and are now further off than we should have been had there not been great mistakes in our legislation and the administration of the treasury. In so far as our resources are more largely developed, and we are producing a larger share of the iron and of cotton, woollen, silk, and other goods we consume, we are in a better condition than we then were. But in so far as our gold-bearing indebtedness has been transferred from Americans to foreigners, and it has been done very largely, the resumption of specie payments has been postponed.

How our bonds have been driven abroad.

Let me illustrate by showing you how our currency has been contracted, and the American holders of our bonds thus been compelled to sell them to foreigners. When the war closed there were many millions of compound interest notes outstanding, also of the seven-thirties, and the three per cent. certificates of indebtedness, which together amounted, I think, to over two hundred millions of dollars. There were four hundred millions of greenbacks and three hundred millions of national bank notes, making altogether over nine hundred millions of currency. You say the compound interest notes, seven-thirties, and three per cents. were not circulating notes. I admit that you are technically correct, but assert that they were part of our currency, inasmuch as they were held by the banks as part of their reserve. Amounting to more than two hundred millions, they permitted the entire volume of the greenbacks and national bank notes to be in circulation. Then money was cheap. The banks were glad to discount paper at six per cent., and merchants, manufacturers, and capitalists generally were able to hold bonds, and found profit and convenience in doing so; for while they could borrow money for six per cent. currency, they received six per cent. gold with which to meet foreign purchases or to sell at the ruling premium. In the mean time the Secretary of the Treasury was criticized for keeping more than one hundred millions of gold in the Treasury, and not selling it fast enough to satisfy the resumptionists. So long as this condition of things remained, we were developing our resources, stimulating immigration, constructing machinery and importing it together with skilled workmen to manage it, and impelling and quickening all those agencies by steam and electricity. We could then afford to build "*premature*" railroads, and thus develop the mineral and agricultural resources of new sections of our country, and were on the road to

manufacturing and commercial supremacy, which would have made ours the country in which the world's balances would be settled, as they now are in London—but unwise counsels prevailed.

McCulloch's mistakes and their results.

The compound interest notes matured and were paid off, which was a material contraction of the currency. The seven-thirties matured and were paid, still further contracting the currency. Secretary McCulloch had issued his Fort Wayne letter, promising that we should resume specie payments before the last of these obligations would mature, which letter cost the country hundreds of millions by the paralysis it inflicted upon our productive industries. If resumption was to be brought about thus rapidly, no prudent man wanted to be caught with incomplete enterprises upon his hands, or to manufacture goods to be sold in a rapidly-falling market. But, worse than all this, having compelled the banks to hold a reserve of greenbacks instead of compound interest notes or seven-thirties, Congress absurdly permitted Mr. McCulloch to retire four millions of greenbacks for eleven consecutive months, making a reduction of eleven per cent. of the entire amount. What was the result? Money became scarce and dear, and the rate of interest went up so high that it was no longer a matter of profit or convenience to enterprising Americans to hold our bonds. They had to sell them in order to escape the ruinous rates of interest demanded, and the only market for them was abroad. But deluded by the fact that we were paying our debt at the rate of one hundred millions a year, and the belief that we must therefore be approaching specie payments, another measure of contraction to the extent of seventy millions was consummated at the cost of doubling the rate of interest on that amount of the national debt. The three per cents. were in the nature of a call loan, but they never would have been called, because our banks held and used them as part of their reserve, and were thus receiving three per cent. on that part of their reserve which was composed of these certificates. As the banks would have to supply the vacuum created by retiring part of their greenbacks, which were not interest-bearing, but by loaning which they were receiving six per cent., they never would have called for their payment. If the seventy-millions of dollars with which the three per cents. were redeemed had been applied to the redemption of six per cents., our interest account would have been one million five hundred thousand gold less than it now is annually, and the interest would have been paid to Americans instead of the increased amount being paid to foreigners. Thus it has come to pass that all our bonds, except those held by the national and savings banks, are now held by foreigners, and our payments of interest in gold to foreigners, from the Government and on gold-bearing bonds of corporations, is more than one hundred millions of dollars annually, or forty millions more than the annual product of our mines.

The absurdity of a proposition demonstrated.

Nobody now complains that the Treasury keeps a hundred millions useless gold, but everybody is glad to know that it probably holds fifty millions. The absurdity of the proposition that "the way to resumption is to resume" is demonstrated by the fact that if the Treasury were to announce that it would pay specie for greenbacks, the national banks, preferring to hold their reserve in gold rather than greenbacks, would present bills for one hundred and twenty-eight millions, or one hundred and fifty per cent. more than the gold held by the Treasury. And having exhausted the Treasury no man could call upon them for a dollar, inasmuch as their notes are redeemable in greenbacks and not in gold. The attempt to resume would result simply and solely in a transfer of the coin from the vaults of the Treasury to those of the banks. Its range of circulation would have no greater extent than this.

Two paths to resumption.

But you ask, Are we never to come to resumption? I answer, Yes, there are two paths to it. One, and the longer one, is to struggle on until, by the progress of a long series of years, our exports shall come to steadily exceed our imports, and foreigners, in payment of balances, shall send us back our gold-bearing bonds, and then settle balances in gold. But he who looks for specie payments by this process looks through a very long vista. The other process is to promote the transfer of our bonds to our own people by making money cheap, or, in other words, by expanding our currency and issuing bonds payable principal and interest in lawful money, and thus reducing the rate of interest to a point as low or lower than it was before we insanely entered into forcing our bonds on foreign markets by contraction. To accomplish this, I think the banking law should be so modified as to make the payment or receipt of interest on deposits by a national bank a cause of forfeiture of charter, and to prohibit, under serious penalties, the certifying by national banks of any check which did not represent an actual deposit in the vaults of the bank. This in itself would be a measure of contraction. I would therefore relieve the banks from maintaining a reserve to secure either their circulation or deposits. Here let me pause to say why I would abolish the reserves: Primarily to increase the volume of currency to counteract the contraction; secondly, to remove restraints from banks that are conscientiously managed, but which are disregarded by those managed by unscrupulous speculators. But again, I would do it because such reserve is not needed as security for the notes. The bonds deposited with the Government secure them, and secure them adequately, for the notes are only 90 per cent. of the face value of gold-bearing 6 per cents., which, even in this crisis, are at a considerable premium. For the Government to compel the banks to maintain a reserve to protect depositors is absurd. It is at best when fully maintained a delusion, for it amounts to but twenty-five per cent. of the deposits; and yet it leads people to believe

that there is a reserve which makes their deposits secure. In connection with these modifications of the banking law, and to avert the effects of the contraction of credits they would produce, I would provide for the issue of bonds payable, principal and interest, in lawful money, at the rate of $3\frac{65}{100}$ interest per annum, or 1 cent a day, and make those bonds interchangeable with greenbacks. How largely such bonds would be taken by our people few are now prepared to believe. There are two periods in each year when there is but small use for money and bank credits, during which merchants of good standing have large balances of unemployed capital, and when farmers and tradesmen of the interior districts have greater or less sums for which they can find no profitable employment. This money is now loaned, subject to call, to banks, bankers, and brokers, at a low rate of interest, and it finds its way to Wall Street, where it is employed in making corners in gold, greenbacks, and stocks. By these appliances the industry and trade of the country are embarrassed, the people are swindled and robbed, and crises like that which we are now experiencing and that of the famous Black Friday are brought about. Take as an illustration the case of the farmers of Missouri, Wisconsin, and Illinois, who may have one thousand or a few hundred dollars for which they have no employment. They deposit their money with bankers in their neighborhood, at a low rate of interest. Inasmuch as this money is deposited on call, these bankers cannot loan it on mortgages or long notes to their customers, but they can and do send it to Chicago, St. Louis, or Milwaukee at an increased rate of interest. Speculation is not strong in those Western cities, and the banks there send their money to New York, where it is again loaned on call at still higher rates. Being on call, the banks cannot invest it permanently, and they, in turn, loan it on call at a still higher rate of interest to bankers and brokers, such as Fisk & Hatch and Henry Clews & Co., who again lend it at from one-quarter to two and a half per cent. a day to what is called "the street," or the parties who get up corners in gold and stocks. Now, here we have the traditional row of bricks. The time comes when many of the original depositors simultaneously want their money. They call on the bankers with whom they deposited. They in turn call upon Chicago, St. Louis, and Milwaukee. The latter make a demand upon New York banks, and so on to the end of the line; or, on the other hand, one great failure occurs in New York or Philadelphia, as happened on the 18th of September, and behold, every depositor and every bank with whom balances were deposited want all the money standing to their credit with any other bank or banker. Now, the issue of such bonds as I have spoken of would effectually put a stop to this whole vicious system. The bonds should be issued in small amounts, twenty-five and fifty dollars, with those of larger denominations. The smallest balance of a farmer put into such a bond would earn him a higher rate of interest than he is in the habit of getting from his local banker. The security would be absolute, and he would know that the money would be forthcoming in greenbacks on demand. So much for the country.

Our merchants would adopt these bonds as the proper means of employing their capital during the dull months of the year, and capitalists having large sums of money with which they do not wish to speculate, but hold for investment when opportunity offers, would place them in such bonds, and while the country would be protected against the gold and stock gambling of Wall Street, its capital would be employed. Any bill providing for the issue of such bonds should require the Secretary of the Treasury to invest the money thus obtained as closely as prudence would permit in the purchase of five-twenty gold-bearing bonds, and to hold any surplus of gold that might accrue for the express purpose of calling in and extinguishing overdue gold-bearing bonds. In this way the American people would soon become owners of a large share of the indebtedness of the country. The interest account against the Government would be greatly reduced, and the amount of gold to be paid annually be reduced still more largely, as these bonds would carry interest in lawful money. We would then be on the highway towards resumption, the lion in the path being, as I have said before, the annual payment to foreigners of a hundred millions of gold.

Secretary Richardson's payment of silver.

I have given you my views very frankly on these grave questions. I may add that I have had most agreeable conferences on this subject with the President, the Secretary of the Treasury, and General Spinner, and I have heard no suggestion from any of them to shake my confidence in the views with which I came to Washington. And now, permit me to say a few words on the subject of the Secretary of the Treasury's alleged attempt to resume specie payments by the use of silver. This allegation does him great injustice. He found himself unable to sell gold without taking from the people greenbacks at a time when their possession was of vital interest to them; but he also found that the relation of the price of silver to gold was such that, coupled with the fact that our subsidiary silver coinage is like that of all other nations, worth intrinsically less than its nominal value, he could, by the coinage of silver, give employment to many people in the mints and to those who supply them with material, while using profitably certain portions of the funds under his control. He saw, also, that, if this practice continued long, or, in other words, that if the relative value of gold and silver remained as they are for some time, he might add a few millions to the volume of the currency, and at the same time keep one of our staple products—silver—from depression. Viewed in its proper light, the Secretary's action is highly commendable, while people who have been led to suppose that he was about to issue silver change as a step towards resumption were right in treating the proposition with derision. Mr. Secretary Richardson is incapable of such folly.

(From the Philadelphia "PRESS," November 6, 1873.)

PHILADELPHIA, November 4, 1873.

MY DEAR SIR: The *Evening Bulletin*, of Saturday, contained what purported to be a despatch from Washington, saying the President was "considerably surprised at the statement put forth, apparently with Judge Kelley's sanction, that the two virtually agree on financial matters." Other papers, mistaking this for an Associated Press despatch, gave it circulation as such. I am quite sure that the report that I had made such a statement, if he did really hear it, did not surprise the President more than it did me, as I have been scrupulously careful not to repeat anything that was said to me on such matters by the President or any officer of the Government. Nor have I represented him or any of them as agreeing with me. I have made the general remark that I "had found the President's views more accordant with mine than I had expected to." This is true, and whatever may be his opinions on the question of the issue of convertible bonds, or of the increase of currency, to neither of which I have attempted to commit him, it is also true, as I know from personal intercourse with him, that he holds many opinions on the paramount questions of the day that I will, consistently with my past record, find pleasure in maintaining during the coming session of Congress. In the course of a somewhat extended expression of my opinions to Mr. Macfarland, the Washington correspondent of THE PRESS, as appears by his report thereof, I alluded to the interviews I had had with the President, with the Secretary, and with General Spinner, and said I had "heard no suggestion from any of them to shake my confidence in the views with which I came to Washington." This language did not imply that my views on the questions under discussion had been approved by them, but rather that they had controverted them.

But if my opinions on such grave questions are sound, and it be true that the President is opposed to them, so much the greater is the importance of presenting to the people, who are suffering so severely and who are the final arbiters of policies, the reasons by which my conclusions are sustained. Will you not, therefore, permit me again to address your readers?

Always opposed to contraction.

Nearly six years ago, on the 18th of January, 1868, I spoke in opposition to the policy of contraction which Secretary McCulloch was enforcing with unreasoning vehemence, and brought to the attention of Congress the following remarks from Allison's History of Europe: "The evils complained of arose from the unavoidable result of a stationary currency, coexisting with a rapid increase in the numbers and transactions of mankind, and these were only aggravated by every addition made to the energies and productive powers of society." * * * "But if an increase in the numbers and

industry of men coexists with a diminution in the circulating medium by which their transactions are carried on, the most serious evils await society, and the whole relations of its different classes to each other will be speedily changed; and it is in that state of things that the saying proves true, 'That the rich are every day growing richer, and the poor poorer.'"

Mr. Johnson's Administration was wise in its own conceit, and would not listen to the admonitions of reason or history; and we see in the widespread ruin which prevails a terrible demonstration of the truth of the averments of the philosophic historian. Since January, 1868, we have added two millions to our population by immigration alone; have constructed and equipped more than 31,000 miles of railroad; have subdued the "Great American Desert," and are working its almost fabulous deposits of the precious metals; have established railroad and telegraphic communication between the Atlantic and Pacific States, and have nearly if not absolutely doubled the productive power of the country. Our annual production of grain, cotton, tobacco, and wool, of gold, silver, copper, lead, iron, and petroleum has never equalled that of this year. But what is the condition of our people now, when November gales herald the approach of winter? I do not exaggerate by saying that hundreds of thousands of industrious and frugal people are unemployed, and in moody despair are exhausting the wages they have saved in past years; and that there are tens of thousands of skilled workmen daily begging the poor privilege of toiling that they and theirs may be enabled to eat the bread of honest independence.

Want and superabundance dwell side by side in every part of our country. Our productive power and ability to consume are so greatly restricted that the public revenues are diminished, the national debt increases, and foreigners, to whom we are heavily indebted, send us coin with which to move our crops and animate our industries. And why has this season, in which nature has lavished upon us with unsparing hand her choicest gifts, been thus clouded by want and despair? Is it not because our circulating medium has been contracted, while our numbers and productive power have been increasing with marvellous rapidity? The fact that, could a sufficient supply of currency to move our superabundant crops and facilitate the ordinary exchanges of the country have been obtained on government bonds and other undoubted securities, the crash would have been averted, proves that it is the result of artificial causes, and is due to the financial policy of the government, and to that alone. We have contracted the currency when we should have maintained or increased its volume, and given it, as we could have done by the early issue of convertible bonds, such a measure of elasticity as would have prevented the possibility of such a crisis.

This we should have done. Let us see what we have done. While refusing to allow the people currency enough to make the daily

exchanges of society, and withholding from employers a sufficient number of one, two, and five dollar notes with which to pay their workmen weekly for labor performed, we have, by thus making money scarce, not only enhanced the rate of interest and reduced the demand for labor, but have increased the value and purchasing power of every dollar hoarded by capitalists. Nor are these all the baneful consequences for which our unwise legislation is responsible; for, by refusing to issue bonds payable, principal and interest, in lawful money, bearing a low rate of interest, but a rate equal to that paid by banks on current deposits, convertible at the will of the holder, in which balances might be temporarily invested, we have enslaved enterprise to usury, and intensified speculation by compelling merchants, manufacturers, and mechanics to sell their government bonds and other sound securities in order to escape from the payment of the ruinous rates of interest demanded by bankers, whose capital is borrowed at low rates, and consists chiefly of corporate and individual balances deposited on call.

Bonds forced to go abroad.

We have thus forced our gold-bearing bonds on foreign markets, and by allowing national banks to pay and receive interest on deposits, and to certify checks drawn against nominal or prospective deposits, have poured fictitious credits upon each other until Wall Street became a financial maelstrom in which the reserves of the banks and bankers of the country were engulfed. And while we were denying industry and productive enterprise sufficient lawful money with which to make current payments, the average *daily* clearing of *checks* in the New York Clearing House, for the year ending October 1, 1872, the latest report to which I have access, amounted to no less than $105,964,277. This is the process by which the currency is inflated. Here is where expansion and contraction are effected when either will best suit the purposes of men like Fisk, Drew, Gould, Vanderbilt, and their kind, whose moral code would startle most inmates of penitentiaries.

The policy I advocate would, by absorbing private balances in convertible governments, deprive these robber chieftains of their power, give laborers prompt cash payments, and secure quick settlements in every department of trade. And that it would contract the fictitious credits of Wall Street, by means of which gamblers in stocks, gold, and bonds gather to themselves the substance of manufacturers and merchants, and transmute the sweat of the laborer's brow into palatial mansions and magnificent equipages, no sane man will, I think, deny. It may be that the President does not approve it, and that Congress will reject it; but with great deference to the opinions of both, I shall continue to believe that with the growing intelligence and power of the people, the year is not remote in which a congress will provide for it, and an administration inaugurate it in obedience to the expressed will of the people.

An unsurpassed currency.

Our national notes—greenbacks, as they are called—are the best currency we have ever had, and, as I believe, are as good a system as the wit of man will ever devise. But, like everything human, the system is not perfect. It wants elasticity. The law by which it was established embraces one almost fatal provision—that which limits the amount that may, under any circumstances, be issued. The same vice taints the national bank law. It was borrowed from Sir Robert Peel's law of 1844 for the regulation of the Bank of England. But the cases are not parallel. Our laws are inflexible, but those of England may be suspended by the government: and this provision of the English law was not meant to be inflexible. Indeed, it had not been on the statute-book three years when, in 1847, it was suspended by an order in council, and has since been twice suspended. And I hazard nothing in affirming that the ultimate basis of the British credit system is not gold or faith in the honest or judicious management of the bank, but is found in the knowledge that the government will, under any circumstances and at any time, avert the commission of the fact of bankruptcy by the bank, by ordering it to violate the restraints provided by law, and issue notes enough to relieve, not only itself, but all who may offer good securities. The last exercise of this power was in 1866, and the next will, if I do not gravely mistake the signs of the times, occur in time to shed light upon the duty of Congress in the present emergency. This is the process by which England gives elasticity to her currency, and averts or mitigates financial crises.

Experiences of the Bank of England.

Referring to it, Mr. Walter Bagehot, in his recent volume on "Lombard Street," says:—

Three times "Peel's act" has been suspended because the banking department was empty. Before the act was broken—

In 1847	the banking	dept.	was reduced to	£1,994,000
1857	do.	do.	do.	1,462,000
1866	do	do.	do.	3,000,000

In fact, in none of these years could the banking department of the Bank of England have survived if the law had not been broken.

* * * * * * * * * *

In most banks there would be a wholesome dread restraining the desire of the shareholders to reduce the reserve; they would fear to impair the credit of the bank. But fortunately, or unfortunately, no one has any fear about the Bank of England. The English world, at least, believe that it will not—almost that it *cannot*—fail. Three times since 1844 the banking department has received assistance, and would have failed without it. In 1825, the entire concern almost suspended payment; in 1797, it actually did so. But still there is a faith in the bank, contrary to experience, and despising evidence.

But no one in England ever dreams of questioning the credit of the bank, and the bank never dreams that its own credit is in danger. Somehow everybody feels the bank is sure to come right. In 1797, when it had scarcely any money left, the government said not only that it need not pay away what remained, but that it *must* not. The effect of letters of license to break Peel's act has confirmed the popular conviction

that the government is close behind the bank, and will help it when wanted. Neither the bank nor the banking department have ever had an idea of being put into liquidation; most men would think as soon of winding up the English nation.

* * * * * * * * * *

Since 1797 the public have always expected the government to help the bank if necessary. I cannot fully discuss the suspensions of the act of 1844 in 1847, 1857, and 1866, but indisputably one of their effects is to make people think that government will always help the bank if the bank is in extremity.

A more miserable catalogue than that of the failures of the Bank of England to keep a good banking reserve in all the seasons of trouble between 1825 and 1857 is scarcely to be found in history.

But more strikingly to the point is the following extract from evidence given in 1858 before a select committee of the House of Commons, by Mr. Alderman Salomon, the manager of the chief joint stock bank in London:—

By Mr. Wegnelin.—You of course felt quite certain that your deposits in the Bank of England might be had upon demand?

We had no doubt of it.

You did not take into consideration the effect of the law of 1844, which might have placed the banking department of the Bank of England in such a position as not to be able to meet the demands of its depositors?

I may say that that never gave us the smallest concern.

You therefore considered that if the time should arrive the government would interfere with some measure as they had previously done, to enable the bank to meet the demands upon it?

We should always have thought that if the Bank of England had stopped payment, all the machinery of government would have stopped with it, and we never could have believed that so formidable a calamity would have arisen if the government could have prevented it.

By the Chairman.—The notion of the convertibility of the note being in danger never crossed your mind?

Never for a moment; nothing of the kind.

By Mr. Weguelin.—I refer not to the convertibility of the note, but to the state of the banking department of the Bank of England.

If we had thought that there was any doubt whatever about it, we should have taken our bank notes and put them in our own strong chest. We could never for a moment believe in an event of that kind as likely to happen.

Therefore, you think that the measure taken by the government of issuing a letter authorizing the Bank of England to increase their issues of notes upon securities was what was generally expected by the commercial world, and what in future the commercial world would look to in such a conjunction of circumstances?

We looked for some measure of that nature. That, no doubt, was the most obvious one. We had great doubts it would come as it did, until the very last moment.

Have you ever contemplated the possibility of the bank refusing to advance under circumstances similar to those which existed in November, 1857, or upon good banking securities?

Of course I have, and it is a very difficult question to answer as to what its effect might be. But the notion appears to me to be so thoroughly ingrained into the minds of the commercial world that whenever you have good security it ought to be convertible at the bank in some shape or way, that I have very great doubt whether the bank can ever take a position to refuse to assist persons who have good commercial securities to offer.

The necessity of flexibility.

As I have said, our law is inflexible, and the power to suspend it at discretion cannot and should not be imparted to the Executive; and yet there must be somewhere a reserve of legal-tender notes

equivalent in their paying power to those of the Bank of England, which may be brought into circulation on extraordinary occasions and returned when these occasions have passed. This is essential to the steadiness and life of business. Nor is the necessity for such a reserve peculiar to countries whose currency is in part or in whole of paper. This is shown by the crisis in Hamburg, and the embarrassment of the Bank of Hamburg when the currency was purely metallic. Ricardo says:—

> On extraordinary occasions a general panic may seize the country, when every one becomes desirous of possessing himself of the precious metals as the most convenient mode of realizing or concealing his property. Against such panics banks have no security on *any system.*

The first and main question for Congress to consider will, in my judgment, be, Can we safely create such a reserve of money, and enable the people to command it when in their judgment the exigencies of the case require its use? My reply to this question is that we can do it, and in such a manner as to reduce the average rate of interest; to recall from abroad and extinguish many of our six per cent. gold bonds; to reduce the Government's interest account, and by diminishing the demand of the Government for gold to pay interest on its bonds reduce the premium thereon and the difference between gold and our paper money.

The convertible-bond plan.

These advantages, I believe, may all be attained by the issue of bonds for $25 and multiples thereof, bearing 3·65 per cent. interest, payable, principal and interest, in lawful money, and interchangeable for such money at the will of the holder.

The money received for such bonds should be closely applied to the purchase of six per cent. gold-bearing bonds. To prevent the embarrassment of the Treasury by a sudden and unusual call for the conversion of 3·65 convertibles, a special issue of greenbacks, to be known as the redemption fund, should be prepared and held for their redemption and for no other purpose. This fund would rarely, and it may be would never, be drawn upon, but it should be known to exist—and when drawn upon should be fully reimbursed by the deposit of the first moneys received for this series of bonds after the excitement which had caused the withdrawal had passed. This would produce no general inflation of the currency, but would prevent speculation by preventing the accumulation of corporate and individual balances at a few money centres while the canals are closed and while maturing crops are not ready to be moved. It would also give flexibility to our currency and prevent such panics as that which is now turning our boundless prosperity into bankruptcy and want.

It will be observed that the foregoing propositions are not submitted as a plan of relief for prevailing embarrassments, but as a method by which their recurrence may be prevented. The measures

by which Congress may give immediate relief to the commercial world and animate our paralyzed industries are in my judgment very simple; they are, first, to require the Secretary of the Treasury to invest in six per cent. gold bonds so much of the $44,000,000 retired by Mr. McCulloch as may not be required to meet the current expenses of the Government, and, second, to repeal the provisions of the bank laws which require national banks to maintain a reserve to secure either notes or deposits. The expansion of the currency thus produced would restore confidence, and if the amount should prove to be somewhat redundant the surplus would soon find its way into the Treasury in exchange for 3·65 convertibles, and be applied to the purchase of six per cent. gold bonds. Thus would a somewhat redundant paper currency facilitate and expedite the resumption of specie payments by the American people.

Hoping you may, notwithstanding its length, be able to find space for this, I remain

Yours, very truly, WM. D. KELLEY.

COL. JOHN W. FORNEY.